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Internal Audit Services Branch

# Audit of the Implementation of Delegation of Authority Within SAP

March 2015

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**PDF**

Cat. No.: Em20-31/2015E-PDF

ISBN: 978-0-660-02266-6

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## Executive Summary

The *Financial Administration Act* (FAA) and Treasury Board of Canada Secretariat (TBS) Directive on Delegation of Financial Authorities for Disbursements set out the core legal and policy framework for general financial management and accountability of public sector managers. The delegation of financial signing authorities (DFSA) constitutes a key internal control in the government expenditure process. The DFSA comprises the following elements:

- Section 32 of the FAA pertains to the commitment of funds against an appropriation and expenditure initiation;
- Contracting authority enables incumbents to enter into a contract on behalf of the department;
- Section 34 provides the authority to certify the receipt of goods and/or the provision of services and entitlement of payment; and
- Section 33, the final step in the expenditure process, provides the authority for issuing the payment after determining that the payment is properly authorized and legal.

Employment and Social Development Canada (ESDC) implemented SAP on April 1, 2014. The authorization of financial transactions and validation of DFSA are automated in SAP, for those transactions entered using the Vendor Invoice Management. The payment approval process includes an automated verification of the Fund Center manager's credentials with the DFSA database.

## Audit Objective

The objective of this audit was to assess whether controls related to delegated financial authorities within SAP are adequately designed and operating as intended to support the appropriate authorization of financial transactions.

## Summary of Key Findings

- Policies, procedures and guidelines pertaining to financial signing authorities exist and are aligned with legislative and TBS policy requirements;
- Process to grant financial signing authority is well designed;
- Operating effectiveness of controls to grant financial signing authority needs improvement;
- Financial transactions are appropriately authorized by the right individuals and auditable evidence is captured in SAP;
- There are no monitoring mechanisms identifying transactions where incompatible financial signing authorities are exercised in SAP (sections 34 and 33 by the same individual); and
- There is no formal process to monitor and update the DFSA instruments.

## **Audit Conclusion**

Overall, the audit concluded that adequate controls are in place to support the appropriate authorization of financial transactions in SAP. These controls could be enhanced by establishing a formal process to monitor and update the DFSA instruments and by implementing monitoring mechanisms that identify transactions where incompatible financial signing authorities are exercised in SAP.

## **Recommendations**

The Chief Financial Officer (CFO) should:

- Design and implement a formal process to monitor and update delegation instruments, electronic authorization matrices, specimen signature documents, validation and authentication processes; and
- Design and implement controls to identify transactions for subsequent reviews where incompatible financial signing authorities are exercised in SAP.

## **I.0 Background**

### **I.1 Context**

The FAA and TBS Directive on Delegation of Financial Authorities for Disbursements set out the core legal and policy framework for general financial management and accountability of public sector managers. The DFSA constitutes a key internal control in the government expenditure process. The DFSA comprises the following elements:

- Section 32 of the FAA pertains to the commitment of funds against an appropriation and expenditure initiation;
- Contracting authority enables incumbents to enter into a contract on behalf of the department;
- Section 34 provides the authority to certify the receipt of goods and/or the provision of services and entitlement of payment; and
- Section 33, the final step in the expenditure process, provides the authority for issuing the payment after determining that the payment is properly authorized and legal.

ESDC implemented SAP on April 1, 2014. The authorization of financial transactions and validation of DFSA are automated in SAP, for those transactions entered using the Vendor Invoice Management. The payment approval process includes an automated verification of the Fund Center manager's credentials with the DFSA database.

### **I.2 Audit Objective**

The objective of this audit was to assess whether controls related to delegated financial authorities within SAP are adequately designed and operating as intended to support the appropriate authorization of financial transactions.

### **I.3 Scope**

The scope of this audit included key controls pertaining to financial delegated authorities implemented in SAP, namely commitment of funds and expenditure initiation authority (section 32), contracting authority, certification authority (section 34) and payment authority (section 33).

## **I.4 Methodology**

The audit was conducted using a number of methodologies including (but not limited to):

- Process observation and analysis;
- Documentation review and analysis;
- Interviews with Chief Financial Officer Branch (CFOB) management and staff; and
- File review and analysis
  - Review of a statistically valid sample of transactions paid between June 1<sup>st</sup>, 2014 and August 30<sup>th</sup>, 2014.
  - Review of a statistically valid sample of Specimen Signature Cards (SSCs).



## 2.0 Audit Findings

### 2.1 An adequate control environment is in place to support financial signing authority

ESDC has developed a departmental Delegations of Authority Manual which provides comprehensive and useful information, such as delegations by programs and types of expense (hospitality, events, membership fees, etc.), as well as links to the applicable regulations, TBS directives and policies. A policy on DFSA is in place and available on the departmental intranet. We reviewed this policy and found that it is in compliance with FAA and TBS requirements. This policy is accompanied by a complete set of supplementary notes which highlight delegation principles, roles and responsibilities, authority limits and required training. In addition, a generic mailbox is available for managers and financial officers exercising DFSA if they need additional information or wish to provide feedback and suggestions related to DFSA.

More importantly, as required by the TBS Directive on Delegation on Financial Authorities for Disbursements, the departmental DFSA has been officially delegated by the Minister and the Deputy Minister to position titles, not to individuals specifically, through a formal, written and signed document.

Of note, interviews with management and documentation review demonstrated that delegation of DFSA is considered as a core financial control that constitutes the foundation piece to hold managers accountable for prudent stewardship and lawful utilization of public resources under their responsibilities. As such, management, at the earliest opportunity, debriefed the newly appointed Minister on the principles underlying the design of DFSA which were then formally reviewed and approved by the Minister.

### 2.2 Opportunities exist to improve controls over the delegation and monitoring of financial signing authorities

#### **The operating effectiveness of controls over the DFSA could be strengthened**

ESDC's process to receive, review, validate, update and activate SSCs is well designed. A centrally managed SAP database is used as the central repository of all SSCs. This database is managed by a unit within the Integrated Corporate Accounting and Accountability Directorate (ICAAD) of the CFOB at National Headquarters (NHQ).

In order to set up a SSC in the SAP database, the incumbent has to submit an electronic DFSA request through the SAP portal. The DFSA request is then actioned by a financial officer from the ICAAD, who verifies its completeness, such as the delegation of the incumbent's supervisor, the appropriateness of the fund centre, the validity of the incumbent's training through the Canada School of Public Service website and ensures that the delegation is consistent with the

departmental DFSA chart, particularly dollars limits and expenditure types (hospitality, conferences, ex gratia etc.). When the DFSA request is deemed satisfactory, the financial officer approves the request and the system sends automatically an e-mail message to the incumbent confirming that the request has been approved and requesting a signed hard copy of the SSC to NHQ. Once NHQ received the hard copy of the SSC, it is uploaded into the SAP database and made available for reference.

We designed our tests to obtain a representative number of active SSCs through the period under review by selecting a statistically valid sample of 114 managers with DFSA. We tested controls such as the authentication of the SSC by the supervisor, the completion of mandatory training and the completeness of key information of the DFSA (e.g. fund centre, dollars amount limit, etc.). Finally, we compared the information contained on the SSC hard copies with what was granted in SAP.

While the process to grant DFSA is well designed, we found that the operating effectiveness of controls relating to SSCs is not working as intended. The audit team found that 45% of the files contain at least one error and the following weaknesses were identified:

- Granting DFSA before receiving the SSC hard copies and processing SSCs that are undated:
  - The date of the manager's signature was after the starting date of the delegation. Per discussion with CFOB, in most cases this timing issue is due to the delegation of authority being granted electronically first (when the delegation is approved in SAP) and the SSC being signed by the manager shortly after; and
  - The date of the manager's signature was not indicated on the SSC.
- Inconsistency between the DFSA granted in SAP and the DFSA requested on the SSC hard copies:
  - Request made for sections 32 and 34 but the incumbents were granted section 33;
  - The DFSA section was left blank on the SSCs form and the incumbents were granted DFSA; and
  - The incorrect fund centre was delegated to the incumbent.
- Some key controls related to granting DFSA were missing:
  - The DFSA was granted with no end date;
  - The training validity dates were not entered in the SAP system; and
  - The training end date was entered as 9999 into the SAP system.

### **Review and monitoring on DFSA needs to be formalized**

The DFSA database is the fundamental control that financial officers rely on when performing account verification, and it serves as the source of reference for the SAP system when routing workflows to the appropriate individuals for approval.

We noted that there is no formal process to update and monitor the accuracy of the DFSA instruments. As required by the Directive on Delegation of Financial Authorities for Disbursements, at a minimum, controls pertaining to all delegated financial authorities are reviewed and updated annually. These include delegation instruments, electronic authorization matrices, specimen signature documents, validation and authentication processes in use in departments. We expected to find a formal work plan outlining roles and responsibilities and the frequency of the monitoring activities for the delegation instruments including, among others, the alignment of the DFSA with the departmental objectives and the rationale for delegating financial signing authorities to positions, the validity of SSCs, the accuracy of the SAP database, and the adherence to training requirements.

A formal, documented and properly executed monitoring process would allow the Department to prevent and detect potential errors and apply corrective measures as needed. Interviews with management revealed that they are at the early stage of establishing such a process.

Also, there is no formal process to revoke DFSA from employees upon changes to their responsibilities such as departure, transfer or long term leave. Consequently, there is a risk that when employees' responsibilities change, they would still be able to continue exercising their previous DFSA.

By adopting a formal termination process, the DFSA instruments would be updated in a timely fashion and kept accurate, which increase the likelihood of processing financial transactions that are appropriately authorized.

### **Recommendation**

The CFO should design and implement a formal process to monitor and update delegation instruments, electronic authorization matrices, specimen signature documents, validation and authentication processes.

### **Management Response**

CFO agrees with the recommendation. Though not specifically referred to in the Recommendation, Management also wishes to note that the errors observed with respect to the operating effectiveness of the controls related to SSCs were due in large part to the timing of the transactions reviewed which occurred during the transition to the new financial system. Leading up to, and immediately after, the launch of the new system, priority was being given to getting new SSCs in place for every individual in a position with delegated financial authority; meaning a very high volume of transactions. Since that time, more rigour has been brought to the steady-state processes and monitoring activities have been instituted that have

strengthened the operating effectiveness of the controls over SSCs. Actions are expected to be completed by March 2016.

**Incompatible financial signing authorities need to be monitored**

The audit team noted that the ESDC Delegation Chart grants incompatible financial signing authorities to certain positions. TBS Directive on Delegation on Financial Authorities for Disbursements indicates that when assigning financial signing authorities to positions, the following functions are to be kept separate: exercising both section 34 and section 33 authority of the FAA or exercising both contracting authority and certification authority for the same transaction.

The following are examples of positions with incompatible financial signing authorities within CFOB:

- Senior Director General ICAAD;
- Regional Director; and
- Regional Manager.

These positions have up to \$25K contracting authority, full commitment and expenditure initiation authority (section 32), certification authority (section 34) and payment authority (section 33). As per discussion with management, they are aware of the situation and these authorities have been granted for business continuity purposes in case of disruptive events.

Given the fact that the departmental DFSA chart granted incompatible authorities to certain positions, we expected to find preventive or detective controls such as embedded system controls in SAP to flag transactions where incompatible financial authorities are exercised. Walkthroughs and interviews demonstrated that such controls are not in place.

Enabling individuals to execute end to end processing from initiation to payment without adequate mitigation controls puts the Department at risk of not complying with the regulatory and compliance requirements of the FAA and TBS, but also increases the likelihood of processing errors, misappropriations and fraud. Management acknowledged that the ability of flagging transactions where incompatible financial authorities are exercised would be beneficial.

It should be noted that interviews, documentation and file review confirmed that the vast majority of payments are processed by a limited number of functional specialists in the Department, whom exercise section 33 authority and do not have any other DFSA.

A randomly selected and statistically valid sample of 114 transactions processed between June 1<sup>st</sup> and August 30<sup>th</sup>, 2014 was reviewed by the audit team to verify whether transactions were appropriately authorized, auditable evidence is captured in SAP and to determine whether incompatible authorities were exercised. The file review revealed no issues pertaining to contracting authority, certification authority or payment authority, and no incidence where incompatible authorities were actually exercised. The only weakness identified is the absence of supporting documentation in SAP related to section 32 for 36 files, pertaining to medical fees associated with the Canada Pension Plan Disability. CFOB is currently discussing this issue with

Payment and Processing Services Branch to clarify section 32 requirements for these transactions.

**Recommendation**

The CFO should design and implement controls to identify transactions for subsequent reviews where incompatible financial signing authorities are exercised in SAP.

**Management Response**

CFO agrees with the recommendation. Actions are expected to be completed by March 2016.

### **3.0 Conclusion**

Overall, the audit concluded that adequate controls are in place to support the appropriate authorization of financial transactions in SAP. These controls could be enhanced by establishing a formal process to monitor and update the DFSA instruments and by implementing monitoring mechanisms that identify transactions where incompatible financial signing authorities are exercised in SAP.

### **4.0 Statement of Assurance**

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the implementation of delegation of authority within SAP. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

## Appendix A: Audit Criteria Assessment

Audit Criteria	Rating
<b>Controls over the Exercise of Delegated Financial Authorities</b>	
<ul style="list-style-type: none"> <li>Designed and implemented controls to ensure that only appropriate individuals are granted delegated financial authority</li> </ul>	●
<ul style="list-style-type: none"> <li>Designed and implemented controls to ensure that only authorized persons can exercise delegated financial authority</li> </ul>	◐
<ul style="list-style-type: none"> <li>Designed and implemented controls to capture auditable evidence demonstrating that financial transactions are appropriately authorized by the right individuals</li> </ul>	●
<ul style="list-style-type: none"> <li>Designed and implemented controls to segregate incompatible duties related to the exercise of financial authorities</li> </ul>	◐
<b>Review and Monitoring of Delegated Financial Authorities</b>	
<ul style="list-style-type: none"> <li>A formal process is established to monitor the accuracy of delegated financial authority instruments for both substantive and acting periods</li> </ul>	○
<ul style="list-style-type: none"> <li>Monitoring results are reported to appropriate management level and corrective actions are undertaken in a timely manner where required</li> </ul>	○

★ = Best practice

● = Sufficiently controlled, low risk exposure

◐ = Controlled, but should be strengthened, medium risk exposure

○ = Missing key controls, high risk exposure

## Appendix B: Glossary

CFO	Chief Financial Officer
CFOB	Chief Financial Officer Branch
DFSA	Delegation of Financial Signing Authorities
ESDC	Employment and Social Development Canada
FAA	<i>Financial Administration Act</i>
ICAAD	Integrated Corporate Accounting and Accountability Directorate
NHQ	National Headquarters
SSC	Specimen Signature Card
TBS	Treasury Board of Canada Secretariat